

Market Comment | Failed negotiations to freeze oil output impact volatility, not prices

Global Financial Markets Unit 18 Apr 2016

- Fed's Dudley: US interest rate normalisation has to be undertaken, but in a progressive way. The New York Fed president underlined the improvement in US macroeconomic data, and particularly highlighted the "significant improvement" in the labour market as well as in the housing sector and in the health of the banking system. He also showed his confidence in reaching the 2% inflation target in the next few years. In his own words, "After years at the effective lower bound for short-term interest rates, economic conditions have finally warranted the start of U.S. monetary policy normalisation," "But these monetary policy adjustments are likely to be gradual and cautious, as we continue to face significant uncertainties and the headwinds to growth from the financial crisis have not fully abated."
- Early abrupt falls in risk asset prices on the back of a disappointing outcome of the oil producers' meeting curved as the session went by. The main oil producers' meeting last weekend in Doha ended without agreement to freeze oil production at January's levels. Saudi Arabia's opposition to signing an agreement without the participation of Iran was the main obstacle to freezing oil production in order to stabilise oil prices. The lack of agreement had a strong impact on oil prices, which fell sharply early this morning (Brent -6.4% to 41 \$/b and West Texas -7% to 37.55%) but losses were trimmed during the day. (Brent finished at 42.81 USD/pb, -0.7% against the previous day). The disruptive movement in oil prices had a strong impact on the performance of the main financial variables today, although the effect faded during the session. Highly oil-related assets such as certain currencies and equity sectors (such as energy) were punished across the board on the back of high volatility in oil prices. It is expected that volatility in oil prices will remain high ahead of the next OPEC meeting, which will take place on June 2, weighing on oil prices, which are still 60% above January's bottom levels (25 USD/pb). Doubts about oil prices could test the persistence of the recovery in emerging markets, which by now seems to be resilient to recent developments.
- After a very negative opening dragged down mostly by the energy sector European equity markets were able to recover early losses. At the end of the session, major indices registered increases (Eurostoxx: +0.5% IBEX: +0.4% DAX: +0.9% CAC: +0.4%). The US equity indices also started slightly negatively in view of the outcome of the Doha meeting but recovered and are currently registering mild gains S&P: +0.4% DJ: +0.4\$). The Nikkei (-3.2%) was the worst performer among developed market equity indices, suffering the biggest fall on the back of the economic consequences of the recent earthquake in Kumamoto one of the main industrial areas in Japan, especially in the semiconductors industry and weighed down by the strong JPY. The main changes in FX markets took place in commodity-linked currencies, which more than offset the early strong depreciation (Canadian dollar: 0%, Australian dollar +0.3% and Norwegian krone +0.46% appreciated against USD). For their part, Latin American currencies performed relatively better than other sensitive EM currencies (RUB: +0.3% CLP: +0.3% COP: -0.2% MXN: +0.5%). The worst performer was the BRL, which depreciated by around 2% against the USD on the back of the Rousseff impeachment process: after gaining the support of more than two thirds of Lower House members, the impeachment will now be debated by the Upper House. In



any case, political tensions are likely to remain well alive (see). Among developed market currencies, the USD depreciated against its main peers (EUR: +0.29% GBP: +0.47%). In bond markets, developed country yields remained almost unchanged (US 10Y:+3 bps GER 10Y: +3 bps) with a mild compression of peripheral risk premiums (ITA 10Y: -2 bps SPA 10Y: -4 bps POR 10Y: -7 bps).

Update 17.35 CET 18 April, 2016 Table 1



| Current level and changes at daily, a | Debt markets (changes in bp) | | Developed libraries | | 15 2yr 0.74 (1)(4)(42)(30) | | 15 5yr 1.22 (2)(7)(44)(53) | | 15 10yr 1.78 (1) (5) (42)(49) | GER 2-yr -0.5 (1) (2) (-3) (-16) GER 5-yr -0.36 (2) (3) (-8) (-32) GER 10-yr -0.16 (3) (5) (-7) (-47) Belgium 16-yr 0.16 (3) (4) (-7) (-42) Belgium 16-yr 0.5 (3) (4) (-7) (-49) Grance 10-yr 0.9 (2) (6) (-7) (-49) Grance 10-yr 0.99 (2) (6) (23) (70) Haly 10-yr 1.35 (1) (1) (8) (-25) Metherlands 16-yr 0.38 (3) (4) (4) (-42) Portugel 10-yr 0.13 (-3) (-26) (69) (62) Spain 10-yr 1.49 (0) (-2) (6) (-26) India 10-yr 7.42 (-2) (0) (-11) (-34) Indonesia 10-yr 7.44 (3) (-8) (-19) (-130) Country (Ask (Manges et al)) The Country (Ask (Manges et al)) Depart (Manges et al) Dep Country risk (changes in bp) Emerging Barbels Syst oxeriging CoS Syst Oxeriging CoS Syst Oxeriging CoS Syst COS Brast 200 (17 (30) (43) (435) (415) Syst COS Brast 200 (17 (30) (43) (415) Syst COS Brast 200 (17 (410) (410) (410) Syst COS Brast 200 (17 (410) (410) (42) Syst COS Brast 200 (17 (410) (410) (42) Syst COS Brast 200 (23) (410) (43) Syst COS Syst 200 (410) (410) (410) Syst COS Brast 200 (17 (410) (410) Syst COS Brast 200 (17 (410) (410) Syst COS Brast 200 (17 (42) (410) (410) Syst COS Brast 200 (17 (42) (410) (410) Syst COS Brast 200 (17 (42) (410) (410) 5-yr CDS China 122 (3) (-4) (6) (13) 5-yr CDS India 159 (1) (-4) (4) (11) 5-yr CDS Indonesia 199 (5) (-6) (-26) Sept CLUS PROCESSES THE GO (4 (iii) II) (AD) CHORE ITES THIS INCIDENT THE CONTROL THE CO Interbank markets (changes in bp) UEM OIS spread 3m 10 (0) (0) (-1) (-1) UEM OIS spread 12m 35 (-1) (-1) (0) (4) UEM TED spread 3m 35 (0) (0.7) (5) (6) Liber 3m 0.63 (0) (0) (1) (2) Liber 12m 1.22 (0) (1) (2) (4) Stock markets (Changes in percent Developed Markets ASE Action 2014 (4.1 (2.4) (3.1) (a) The Mark School (4.1 (2.4) (3.1) (a) (b) The Mark School (4.1 (2.4) (3.4) (a) (b) The Mark School (4.1 (2.4) (a) (b) The Mark School (4.1 (a) (b) The Mar Large Spenish banks: 67.6 (1.3) (10) (-4.3) (-10) Santander: 4.1 (1.7) (10.6) (-2.8) (-8) 89 VA: 6 (0.9) (9.5) (-5.5) (-11) BBNA 6 (0.9) (0.5) (4.5) (-1) Medium Spatish banks 73.2 (0.6) (6.3) (-2.5) (-11) Caixabank 2.6 (-3) (2.6) (-6.1) (-19) Popular 2.4 (1.1) (0.8) (-4.5) (-21) Sobodel 1.6 (1.6) (0.3.1) (-2.3) (1) Bankinter 6.5 (1.6) (5.5) (1.7) (41) Bankinter 9.5 (1.6) (10.5) (4.2) (-19) Greek banks 3.4 (-2) (6) (14) (-24) Apha Bankt. 9 (-3) (6.4) (5.5) (-22) Fissus Bankt. 9 (-3) (6.4) (5.5) (-22) Fissus Bankt. 2 (-2.4) (11.7) (27.9) (-18) Mational Central Bankt. 3 (-19) (7) (18.6) (-24) Eurobank Erpseis Freedring Blackets Black Carping (1974 6) 86(1,18) 6 89 (14.6) Black Carping (1974 6) 86(1,18) 6 89 (14.6) Bossaga (Brazz) 2002 (6.3) 6.4 (4.8) (21.1) Meshed 4445 (-6.2) (1.8) (0)(5.8) MSGE Black Europe 4890 6,099 (2.1) (2.7) 6.5) Poland 1966 (6.3) (1.7) (6.7) (4.7) Mook Models) 1800 (4.3) (4.7) (4.3) (4.9) Block Black Europe 4890 640 (6.8) (4.3) (4.7) (6.8) Block Black Europe 4890 640 (6.8) (4.3) (4.9) (6.8) Block Black Europe 4890 644 (6.8) (4.2) (4.6) MSCI EM Asia 671 (0.01) (3.1) (3.8) (1.5) Shanghai Composite (China) 3034 (-1.44) (0) (4.4) (-14.3) Jakarta Composite (Indonesia) 4565 (0.9) (1.6) (-0.4) (5) Earch efector Turkish banks 69 (2.2) (6.3) (6.1) (21) Albank T. A. S. 9 (2.6) (7.3) (7.5) (00) Gastell (9 (2.7) (5.3) (12.9) (22.8) Turkiye is Bankasi 5 (1) (6.2) (3.3) (6.7) Russian banks 162 (4.2) (4.6) (2.7) (6.5) Sbetbank 116 (-1.4) (6.2) (7.4) (16.2) VTB Bank 2.1 (4.3) (6.2) (7.4) (16.4) EURUSD 1.132 (0.29) (0.0) (0) (4.2) GBPUSD 1.43 (0.47) (0.21) (-1.5) (-3.2) USDJPY 108.82 (-0.06) (-0.82) (2.3) (9.5) DOV 94.47 (0.2) (-0.6) (0.3) (4.2) Emerging Markets USGARS (Argestina) 14. 07 (0.1) (0.1) (0.1) (0.8) USGARS (Argestina) 14. 07 (0.1) (0.1) (0.1) (0.8) USGGRU, (Brazz) 36 (-1.8) (-3) (9.2) USGGCP (Piche) 694 56 (3.3) (2.2) (9.7) (6.2) USGGCP (Piche) 30002 15 (-2.2) (7.7) (2.3) (5.4) USGGMN) (Brazz) 17. 48 (6.5) (1) (-4.8) (-1.5) USGGRN (Brazz) 37 (6.1) (6.5) (1) (4.8) (-1.5) USGGRN (Brazz) 37 (6.1) (6.5) (2.9) (4.2) LACI 64 87 (0.2) (6.2) (1.4) (5.3)

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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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